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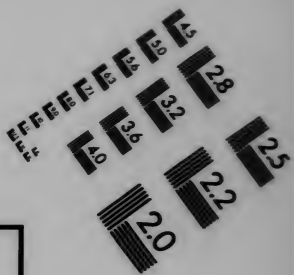
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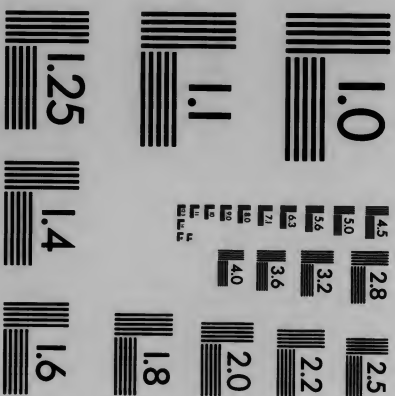
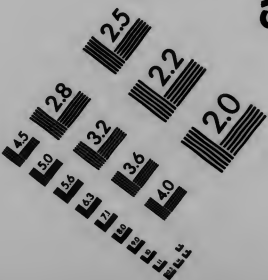


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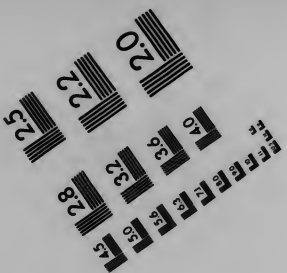
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Profit Sharing

or

*The Worker's
Fair Share*

By

GEORGE W. PERKINS

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Profit Sharing

— or —

The Worker's Fair Share

By

GEORGE W. PERKINS

*Address before the
National Civic Federation
September 11, 1919*

Resume

A BETTER understanding between Capital and Labor is of such importance that a very frank expression of views on the subject matter herein contained is requested, in order that we may compile comments and suggestions that will be helpful to all who are interested in the subject.

*D 262
P41*

National Civic
Federation
Alton B. Parker, *President*
1 Madison Ave., N. Y. City

Dec. 10 '13

Profit Sharing

or

The Worker's Fair Share

THE Worker's Fair Share" has been a real problem ever since the world began. It has changed greatly as civilization has progressed, and has crowded harder and harder for solution as intelligence and education have spread and broadened.

The worker's fair share was an unsolved problem when the expression that designated the relationship between the man of capital and the man of labor was "owner and slave."

It still existed when the expression of relationship became "master and man."

It still exists in these days, when the expression of relationship is "employer and employe."

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These very changes in the expressions used to designate the relationship between capital and labor show that steady progress has been made toward solving the problem of the worker's fair share.

I take it that everyone believes that we cannot go back to the old conditions; that we must move forward to an even better relationship than that expressed by the term "employer and employee."

You ask: "What is this newer relationship to be and what term will express it?" I answer that I believe it must be "partners."

If I am right, then the next question is how can this relationship be worked out so as to bring the best results to all concerned?

This problem has greatly interested me for thirty years. I have studied it earnestly, not from books but from experience obtained in the hard knocks

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of everyday work in the various business undertakings with which I have been connected.

Twenty-five years ago I became convinced that only through profit sharing that was real, honest and open could we hope to find anything like a satisfactory and permanent method of arriving at the worker's fair share.

Ever since that time I have improved every opportunity to spread the gospel of profit sharing and to have its principles adopted by business organizations, and I have greatly appreciated the honor of serving as Chairman of your profit sharing committee since it was organized.

I recall that I read a profit sharing paper before this organization about twelve years ago, and I find little, if anything, to change in the basic principles then laid down. I believe the work that has been accomplished mean-

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while has been worth while and that the time is now ripe for us to push it harder than ever along constructive lines.

I have found that my views on profit sharing, and my beliefs as to how to apply it, differ radically from those of many other people; that the plans I have been instrumental in having adopted are very different in application and in results from many other so-called profit sharing plans. I want, if possible, to point out wherein these differences lie.

Profit Sharing Not Philanthropy

In the first place, I do not look upon profit sharing as philanthropy or a form of benevolence.

I do not put it in the same class with gifts at Christmas-time or bonuses at the end of the year. I do not approve or

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believe in any plan that even savors of giving a man something for nothing.

I do not believe that any self-respecting man wants any such arrangement, and I do not believe that any broad-minded, self-respecting employer can, in the long run, afford to have any such arrangement.

The profit sharing I believe in is the kind that is real; the kind that promotes thorough and efficient cooperation between employer and employe; the kind that makes partners of employes; the sort of profit sharing that is practiced between partners in a business.

Anything short of this is bound to result in failure and will widen rather than narrow the breach between employer and employe.

Close observation, coupled with considerable experience, has convinced me that practically all the many failures in profit sharing, both in this country and

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in Europe, have occurred because at bottom the plans were not honestly devised nor equitably worked out.

In nine cases out of ten, at some point in the practical application of the plans that have failed, the fact has developed that they were not mutually beneficial; they either did not enhance the efficiency of the men in such a way as to satisfy the employer, or else did not distribute profits in such a way as to benefit and satisfy the employes.

No partnership where the profits are shared by two or a half dozen partners could last any length of time unless mutually beneficial, and the same rule holds good in a larger partnership where the profits are shared among many partners.

No man or firm or corporation that is thinking of adopting profit sharing can hope for success, unless prepared to approach the subject in this spirit and

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deal with it in an absolutely honest, open and broad-minded manner.

As I have said, the relation between employer and employe has changed with the centuries.

Originally it was owner and slave; then it was master and man; now it is employer and employe, each stage of development bringing the employer and employe into closer cooperation. What has caused this change in relationship?

In my judgment the cause is found in the vast and broad educational forces that have been at work in the world.

Since we founded this country we have spent approximately as much money on our educational systems as on our railroad systems.

We consider our railroads financially successful if they earn dividends.

If our educational systems are successful the dividends we get from them

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are minds that think better, more clearly, more independently.

Right now, this country is getting such dividends from its vast investments in educational plants.

In the industrial world, in the relations between capital and labor, between employer and employe, we are getting these very dividends, and getting them direct and in cumulative fashion on the wage question.

In the past, the man who was not educated or trained to think independently struck because he wanted \$2 a day if he was only getting \$1.75; and for quite a period labor differences were settled on this basis.

I believe that we are rapidly passing out of that period, for our laboring people are so well educated and so able to think independently that, in many cases, they are no longer striking for a definite increase in wages, but for what

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they regard as a fairer proportion of the profits of the business in which they are engaged.

If I am right about this, then we are rapidly leaving behind the period when labor disputes could be settled by a mere increase in wages and are entering the period when profit sharing in some form must be practiced.

Therefore, the question is, how can it be practiced effectively?

Outline of a Correct Profit-Sharing Plan

A good many years of actual experience have made me very optimistic regarding profit-sharing plans worked out along the following lines:

- First:* Every business has, first of all, to earn operating expenses, depreciation, and fair returns on honest capitalization.
- Second:* I believe that every business should consider that the compensation paid employees is for the purpose of earning a sum of money sufficient to pay the above-mentioned items.
- Third:* I believe that any profits over and above such sum should, on some percentage basis, be divided between the capital used in the business and the employees engaged in the business.

- Fourth:* I believe that in neither case should these profits be immediately withdrawn from the business; that they should be left in the business for a reasonable length of time, to protect and increase its financial strength and safety; that, in the case of capital, its share of these profits should be carried to surplus; that, in the case of employees, their share of these profits should be distributed to them in some form of security representing an interest in the business, and that each employee should be required to hold such security for a reasonable length of time, say three to five years.

- Fifth:* I believe that the employees' share of these profits should be allotted to them as nearly as possible on the basis of the compensation they receive. Up to date, this has proved to be the best method.

Results Attained By a Proper Plan

Now, let us see what such a plan means: In the first place, it means that under such an arrangement each employe becomes a working partner in the business.

He is on the same footing as the financial partners, for if the concern is a partnership with, say, four or five members, the partners themselves are drawing out each year what, in a way, might be called salaries, viz., approximately the amount of money necessary to meet their general living expenses, leaving their surplus profits in the business.

Any partnership or any profit-sharing plan that divided up the profits and withdrew them in cash at the end of every year could not last very long

Why Some Profit-Sharing Plans Fail

Many profit-sharing plans have divided profits with employes on a cash basis and turned the money over to the employes every so often, usually once a year.

The result has been that if a man earning \$1,000 a year received \$200 at the end of the year from a profit-sharing plan, he promptly lifted his living expenses from a \$1,000 basis to a \$1,200 basis, and began to look upon his income as \$1,200 rather than \$1,000, and the extra \$200 did little to increase his activity and efficiency, or to promote his intellectual efforts in the business concerned.

Then, if a period came when business was dull or poor and he did not get the extra \$200, he found fault with the

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owners of the business and became grouchy and inclined to lose interest in his work.

If he did not use the \$200 for his living expenses, he probably invested it in a suburban lot or in some stock that was recommended to him, or in something that he knew little or nothing about.

Then, if his investment began to go wrong, he worried about it, and part of the time which he was being paid to devote to the business in which he was engaged would be expended in worrying about his investment in the business in which he was not engaged; whereas, if his money were invested in the business in which he was engaged, his desire to see his investment succeed and bring him further profits would be converted into efforts that would be of some practical benefit, not only to himself, but to the stockholders and his co-workers.

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In short, little real substantial benefit comes from a profit-sharing plan where the profits are paid out in cash, except perhaps where a man uses the money toward buying a home.

There is, therefore, a serious weakness somewhere in such a plan, and the weakness lies in the fact that profit sharing cannot be really beneficial, either for employer or employe, unless conducted on a partnership basis and coupled with profit saving.

Looking at it from the viewpoint of capital, the object to be accomplished through the adoption of profit sharing is added interest in the business on the part of employes, which in turn brings higher efficiency.

Looking at it from the standpoint of the employe, the object to be accomplished is a fairer remuneration for services rendered.

Therefore, any profit-sharing plan

that fails to accomplish both of these results breaks down sooner or later.

Full Publicity Needed About the Business

In establishing profit sharing it is of the utmost importance that the entire organization, the wage and salary earners, know in advance exactly what they are expected to accomplish.

I mean by this that, on entering a new year, they should know exactly what the preceding year's accomplishments have been. The annual statement of the concern should be full and explicit, so that every man engaged in the enterprise will know what business was done in the preceding year and on what basis profits were and are to be distributed.

An honest, detailed annual statement tells him officially what the profits were, if any, and this fixes a minimum goal for

the coming year, which everyone, individually and collectively, will bend every energy to reach and exceed by as large an amount as possible.

Under such an arrangement as this, each man, in place of working solely for himself in his own department, will pass on to other departments any ideas that occur to him that might help that other department, and in that way benefit the organization as a whole.

In my judgment, some profit-sharing plans are radically wrong in this respect. They distribute profits by departments or in some way other than on the basis of the company's success as a whole.

This narrows the vision of the individual, and he lacks the proper incentive to help wherever he can, whether in his own or another department.

The right kind of profit sharing offers definite goals that an organization, individually and as a whole, can buckle

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down and work for, and it is astonishing how such a plan of profit sharing will heighten the esprit de corps.

It removes petty jealousies; it makes a man eager to pass his ideas on to the man in the next department, and causes them to vie with one another to reach and exceed the figures reached in the preceding year.

A detailed annual report by the company is not only necessary to show the organization in prosperous years how the profits were arrived at and what they amounted to, *but equally necessary in lean years to show how the losses were arrived at*, what they amounted to and why there are no profits to distribute. Gradually, as the employees in the organization become part owners in the business, you broaden and deepen their interest in their work.

They begin to think and speak of the business as their business; they work for

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it as their business, not your business or somebody else's, and in place of "knocking" it they praise it and "boost" it in every way they can, for they have become part owners through being security holders and are receiving their interest or dividends at the same time and in the same manner as other security holders receive theirs.

In other words, once the employees become security holders, they share in interest or dividend distributions and other profits, not only as security holders but as employees.

Some Objections to the Plan Answered

Many people have said to me: "Oh, but it takes a long while for a man who is only saving a small sum each year to acquire much of a financial interest in the concern by which he is employed."

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I have always found that such criticism comes from someone who has not given sufficient thought to the subject, for a small interest means as much to the man having a comparatively small salary as a large interest does to the man of large affairs.

Let us summarize some of the advantages of this method of profit sharing:

First. It is real, it is genuine. The organization as a whole, and each individual in it, has a definite goal for the year's work.

They know at the beginning of the year how much money must be earned to cover what we will call fixed charges.

They know that they are being paid salaries to earn those fixed charges.

They know that they share in all profits over and above those fixed charges, and

They know the basis on which they share, and that the amount of such profits largely depends on the individual and collective

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effort of each individual in the organization.

This in itself is of great practical value to the business from a dollar-and-cent standpoint. There is no philanthropy about it.

The employees have a certain definite goal to reach. If they reach it they are paid a definite percentage for doing so.

It is a definite business proposition, based on the principle of profit sharing as practiced in partnerships.

Second. Having reached the goal set, the money over and above the salaries they are paid—in other words, their profits—are invested in the business in which they are engaged and on which their whole time and thought and energy should be centered.

What a great advantage this is to the employer, and what a spur and incentive to the employee!

What more valuable insurance policy could an employer have against a year of poor earnings?

What a real, genuine interest it

arouses in the worker for the business in which he is engaged!

The whole atmosphere, the whole relationship is changed.

The employer need give little thought to whether or not his men are "soldiering" on him, whether or not they are really giving to their work the best that is in them; and the employe need spend little time wondering whether or not he is being properly compensated.

The whole relationship is placed on a new basis, not antagonistic, as heretofore, but cooperative.

This plan is vastly different from the one now practiced by which one set of men working in a business, viz., the capitalists and partners, leave most of their profits in the business, while another set of men, working shoulder to shoulder with them, viz., the employes, each year take their profits out of the business and put them somewhere else.

The Kind of a Profit Sharing that Does Harm

It is also vastly different from the many bonus schemes in vogue.

It differs greatly from the plan of arbitrarily setting aside, in a prosperous year, a certain lump sum of money and dividing it on a percentage basis among the employes.

Under such an arrangement no man who gets any of the money has any very definite idea of what he did to earn it, what it represents, or what he individually can do to ensure the receipt of some such sum during the following year.

In fact, I am convinced that such bonus giving, erroneously called profit sharing, has done more harm than good, for in many instances it has caused employes to feel that said bonuses were given them because the business was

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earning fabulous sums of money, a tiny little bit of which was thrown to them as a sop to make them feel kindly disposed towards the owners, or in order to ward off a demand for a general increase in wages.

In short, such bonus giving simply stirs up trouble rather than alleviates it.

Profit sharing on the basis I favor is sometimes objected to by men or concerns who do not wish to let even their own employes know how little or how much money they are making each year.

To such men I always say (and each year I am more and more certain that I am right in saying it) that they are very short-sighted if they do not hasten to change their policy.

If they are not making enough money and the business is running on a close margin each year, then by all means they should set their situation before their men, adopt such a profit-sharing plan as I have outlined, and get the genuine

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cooperation of every man towards increasing the profits and putting the business in a prosperous condition.

They are now paying wages and salaries, and many a night go home wondering whether the employes are really earning their salaries.

Under such a profit-sharing plan as I have outlined they have a substantial guarantee that the salaries will be earned because in aiming to share in profits over and above fixed charges the men are all the more certain to earn at least the fixed charges.

And would any proprietor or manager hesitate to pay a handsome premium each year for an insurance policy guaranteeing that every employe in the business would have the business on his mind and work as hard for its success as the proprietor or manager does?

One more thought in this connection.

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The man who is running on a small margin and making little profit may object to making his business affairs public property, on the ground that he would be putting a weapon into the hands of his competitors.

Such a man's best protection against his competitors is a loyal, closely knit organization of the highest efficiency, and this important advantage he can only secure through a bona fide profit-sharing plan.

As for the man who is making so much money that he is afraid to let even his own employes know how much he is making, to that man I say that he is the man who, more than any other, is responsible for the serious differences to-day existing between capital and labor, for with the growing intelligence of the masses, how can he expect such a situation to continue?

Every year, yes, every day, it becomes

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clearer and clearer that such a condition will no longer be tolerated and must speedily pass away.

Would it not be better for him to use some intelligent foresight and meet what clearly are to be the immediate future demands of public opinion?

As for the man who is making large profits but who objects to profit sharing on the ground that he wants to put those profits away against the day when business may be poor.

To such a man, I say that he had better use some of those profits to more deeply interest his men in his business, and do this to such an extent that if the dark days come he can be pretty certain that his men will stand by the business in a way that capital alone never can.

Profit sharing on the basis I favor is also sometimes objected to by concerns whose securities are closely held. There are many ways to obviate this difficulty.

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Some concerns can increase their capital.

Others that cannot, or that cannot do so for a time, can obviate the difficulty by issuing certificates of participation that will draw the same percentage of profit as the regular securities of the business.

In other words, where there is a genuine desire to share profits a way can always be found.

The day of secretive methods is passing rapidly. The day of publicity is at hand. The change is a perfectly natural evolution due to broader education and improved intercommunication and has also come about because it is second nature to be less suspicious and afraid of that which is known than of that which is unknown.

Any profit-sharing plan without an open, honest balance sheet and detailed annual report will never succeed.

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I am convinced that labor is entirely willing that capital should have its fair reward and proper protection, but in this country we have had too many instances where capital had demanded improper protection and taken exorbitant reward; and one of the main reasons why the serious problems confronting us to-day are so difficult of solution lies in the fact that too many men of capital are still arrogant and unreasonable, and absolutely unwilling to look with sufficient care and fairness into the causes that are producing the views and opinions so largely held by our people at this time.

On the other hand, one of the most serious drawbacks to increased output and economical production is the listless, indifferent service rendered by a large percentage of employes.

Making partners of employes, through profit sharing, would correct this as nothing else could.

Profit Sharing that Has Been a Success

Some companies with which I am connected have realized the trend of the times and have for some time been practicing profit sharing along the lines I have indicated.

They believed that profit-sharing plans based on such principles would so knit their vast organizations together, and would so strengthen and develop the esprit de corps, as to make it possible for the companies to increase their business and their earnings; and they were willing to share this increased success with their employes.

So far they have every reason to congratulate themselves on the results.

In all parts of their business, at home and abroad, in the office force, in the factories, in the sales department, every-

where, the individual employe's interest in the business is much greater than formerly.

The saving in waste everywhere is noticeable.

The employes are vieing with one another more and more to improve their respective and other branches of the business.

All this means success for the company, profits for the stockholders, extra compensation for the employes.

It means getting men on salaries and wages to have a live, keen interest in the management of the business.

It means getting an organization of men to work as real partners.

It means recognizing the right of the employe to a fairer share of the earnings of the business in which he is engaged.

In short, it means cooperation that is complete, in that it benefits stockholder, employer and employe.

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While all this can more readily be accomplished in a large business, it can also be successfully accomplished in a small business if approached in the proper spirit; and if applied generally it would remove to a considerable degree the dangers that are menacing modern industry, and which are largely caused by the feeling on the part of the masses that, through wages, they are not getting their proper proportion of the money earned in a given industry.

An industrial democracy of the most ideal sort is found in true profit sharing; an industrial democracy that makes real partners of capital and labor, and yet preserves the right of private property; that preserves and promotes the great business asset that comes from individual initiative; that retains the capitalist's incentive to enterprise, while giving the worker a new inspiration for effort that humanizes large organiza-

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tions of men; that promotes good will and industrial peace.

All these things this country of ours needs now as never before.

The shelves of the world are bare. The entire world needs supplies—supplies of food, clothing, building material, everything.

As long as the supply of these things is so low and the demand for them all over the world is so great, the cost to the consumer will remain high.

Therefore, one of the surest paths leading to a reduction in cost to the consumer is to raise and manufacture a large supply of these necessities as quickly as possible.

Linked with the desire to supply ourselves with food, clothing and other necessities at low cost is our desire to furnish the world with these and other articles, in order to extend our trade and

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foster the prosperity of our people as a whole.

But as practically every other nation hopes to secure a large part of this trade for herself, is it not a certainty that competition among the nations will be keener and sharper in the immediate future than it has ever been in the history of the world?

How can we possibly meet this increased competition if we are divided among ourselves?

Could there be two more potential reasons why we Americans should have the closest possible cooperation between capital and labor?

Could anything bring higher efficiency, greater production?

The only way to secure this cooperation in the highest degree is by eliminating the distrust that has existed between capital and labor for so many years, and establishing confidence in its place.

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Nothing will do this except frank, open dealing, publicity as to earnings and a fair division of earnings.

Since the beginning of time, no country has ever had such an opportunity to extend its trade, increase its prosperity and better the material condition of every one of its people as has the United States of America at this very hour.

The only factor missing is that of close cooperation here at home among ourselves.

It seems inconceivable that we will fail to realize where our weakness lies and fail to adopt the one and only remedy for it.

In the strenuous competition with the rest of the world that this country is on the eve of facing, could we have a stronger weapon than complete cooperation between capital and labor at home?

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